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**MEXICO**

**REFORM OF THE WATER SUPPLY SECTOR AND ESTABLISHMENT  
OF A REGULATORY AGENCY IN THE STATE OF VERACRUZ**

**(TC-01-07-01-0)**

**DONORS MEMORANDUM**

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## ANNEXES

Annex I      Logical framework

## ABBREVIATIONS

APAVER	Programa de Agua Potable y Alcantarillado de Veracruz [Veracruz Sanitary Sewerage and Water Supply Program ]
BANOBRAS	Banco Nacional de Obras y Servicios Públicos
CAEV	Comisión de Aguas del Estado de Veracruz [Veracruz State Water Commission]
CEAS	Comisión Estatal de Agua y Saneamiento [State Water and Sanitation Commission]
CESI	Committee on Environment and Social Impact
CMAS	Comisión Municipal de Agua Potable y Saneamiento [Municipal Water Supply and Sanitation Commission]
CNA	Comisión Nacional del Agua [National Water Commission]
CRAS	Comisión Regional de Agua y Saneamiento [Regional Water and Sanitation Commission]
EU	Executing Unit
IDB	Inter-American Development Bank
MIF	Multilateral Investment Fund
PROMAGUA	Programa de Modernización de los Organismos Operadores de Agua [Program for Modernization of Water Service Operators]
SEDERE	Secretaría de Desarrollo Regional de Veracruz [Veracruz State Department of Regional Development]

# REFORM OF THE WATER SUPPLY SECTOR AND ESTABLISHMENT OF A REGULATORY AGENCY IN THE STATE OF VERACRUZ

(TC-01-07-01-0)

## EXECUTIVE SUMMARY

<b>Executing agency:</b>	Veracruz State Department of Regional Development (SEDERE)	
<b>Project Objective:</b>	The objective of this technical-cooperation project is to support the Government of the State of Veracruz in the modernization of its water supply and sanitation sector and promotion of private-sector participation. This support includes the establishment of a sector development strategy, modification of the existing regulatory framework, creation and strengthening of an autonomous regulatory agency and the measures necessary to link the private sector to service management for one of the largest cities in the state.	
<b>Financing:</b>	Modality:	Grant
	MIF – Facility I:	US\$1 million
	Local counterpart:	US\$1 million
	Total:	US\$2 million
<b>Execution timetable:</b>	Execution period:	24 months
	Disbursement period:	27 months
<b>Beneficiaries:</b>	The project beneficiaries will be: (i) users of state-provided water supply and sewerage services, who will benefit from the changes in the legal framework, a strengthened regulatory agency and implementation of the recommendations set forth in the strategic development plan for the sector; and (ii) users of city services selected for private-sector participation, delivery of which is expected to improve.	
<b>Description:</b>	The project consists of five components: (i) establishment of a sector modernization and reform strategy; (ii) review and modification of the existing regulatory framework; (iii) creation and strengthening of an autonomous regulatory agency; (iv) measures necessary to incorporate private-sector participation in service management; and (v) a seminar/workshop to disseminate the outcomes attained.	

**Special contractual conditions:**

As conditions precedent to the first disbursement, the following documentation must be submitted to the satisfaction of the Bank: (i) legal instrument whereby the executing agency creates the executing unit, pursuant to terms agreed upon with the Bank; and (ii) evidence that the general coordinator for the executing unit has been selected.

The commitment of funds allocated to components 3, 4 and 5 will be subject to the satisfactory execution of components 1 and 2.

**Exceptions to Bank policy:**

None.

**Environmental and social review:**

This operation is feasible from the environmental viewpoint because: (i) it will not have any adverse direct environmental or social impact; (ii) it will lead to the adoption of protective measures in the case of any potentially adverse indirect impact; and (iii) it will have a positive impact through the adoption of measures for environmental protection (see paragraph 6.4). The operation was reviewed and approved by the Committee on Environment and Social Impact (CESI) on 2 November 2001.

## **I. COUNTRY AND PROJECT ELIGIBILITY**

- 1.1 The Donors Committee declared Mexico to be eligible for all forms of financing under the Multilateral Investment Fund (MIF) at its meeting on 21 January 1994. The proposed project meets the eligibility criteria for technical-cooperation funding (Facility I), in that it will promote integral private-sector involvement in the provision of water supply services in the state of Veracruz, on a sustainable basis in the long term. In addition, the project is consistent with the MIF strategies of promoting better operation of the market through the establishment of a regulatory framework that will stimulate private investment and ensure competitiveness.

## **II. BACKGROUND**

### **A. General**

- 2.1 The state of Veracruz has a total population of 7.1 million inhabitants, 41% of whom live in rural localities (less than 2,500 inhabitants) and 59% in 275 urban areas, eight of which exceed 100,000 inhabitants. Water supply and sanitation services in larger localities are generally provided by semipublic institutions known as Municipal Water and Sanitation Commissions (CMAS). In smaller localities, the service is provided by "local operations offices" and in rural communities, by the local water board. There are also two regional commissions (CRAS) that provide services to various municipalities. Both the CMAS and the CRAS have full legal capacity and their own capital. The Veracruz State Water Commission (CAEV) is responsible for their technical and administrative coordination. The above-mentioned operations offices report directly to the CAEV. In some cases, the water supply and/or sewerage services are delivered independently by the municipalities.
- 2.2 Of the total population of the state of Veracruz, only 72% have water service and 68% have connections to a public sewerage system or septic tank. These figures are below the national average, which are 89% and 78%, respectively, for the two services. With respect to wastewater treatment, it is estimated that only 10.5% of the volume produced receives the treatment required by law.
- 2.3 A recent study of the 35 major CMAS and CRAS revealed significant deficiencies in service delivery, principally in the areas of operations and business practices. Only an estimated 47% of the water produced is effectively paid for by the users, due to large physical and commercial losses. The average rate is approximately US\$0.25 a cubic meter, which does not generate sufficient funds to carry out the necessary investments and maintenance. As a result, the existing infrastructure is inadequate, and in many cases, obsolete or in poor condition, in addition to the questionable quality of the water distributed to the population. Moreover, the billing methods, information systems and customer service procedures are also inadequate.

- 2.4 The federal government, through the National Water Commission (CNA), has launched several measures to assist suppliers of water and sewerage services in Mexico, with a view to strengthening their autonomy and management capacity, instituting measures to utilize economic resources more effectively, streamline rates and establish investment recovery mechanisms, incorporating user participation and promoting private investment. The CNA plans to support the state governments in updating their legislation, restructuring services, strengthening administrative and operating capabilities, and expanding service coverage. To that end, it is implementing a program called PROMAGUA, with the participation of BANOBRAS as financial agent, to offer investment funds to operators who, with the respective states or municipalities, are committed to the above-mentioned objectives.
- 2.5 The Government of Veracruz has implemented plans to improve service delivery and obtain the financing necessary to increase coverage. In this context, the State of Veracruz took measures in 1999 to amend the state's legislative framework and has made considerable efforts to increase investment in the sector. Noteworthy among its legislative initiatives are the following: (i) the Regional and Urban Development Act (Law No. 26 of 2000) promotes private-sector participation in the provision of municipal services; (ii) the Veracruz State Water Act (Law No. 21 of 2001), which supersedes Law No. 72 of 1990 on Water and Sanitation, and creates the Veracruz Water Board as the top-level authority responsible for sector coordination, planning and oversight; and (iii) the Law on the Transfer of Public Services and Functions from the State to the Municipalities (Law No. 24 of 2001). Other noteworthy activities are the preparation of a preliminary sector investment plan for the 2001-2004 period, entitled "Veracruz Sanitary Sewerage and Water Supply" (APAVÉR), which aims to increase service coverage to levels similar to the national average, and development of a program to increase operating efficiency by reducing operating and administrative costs through self-financing projects.
- 2.6 The Veracruz State Regional Development Department (SEDERE) is responsible for supporting and coordinating the policies of regional planning and urban development within the state and coordinating these measures with the municipalities. It is also responsible for developing plans and programs for the conservation and rational use of natural resources, and advising and assisting local governments in the planning, management and operation of water supply and sewerage services. Currently, the Ministry has an annual budget of US\$55 million and a staff of 688 employees. The CAEV is a decentralized agency attached to the SEDERE and is the temporary operator of certain water supply and sanitation services. It is also responsible for inspection and supervision of waters under state authority. The Veracruz State Water Board is the agency in charge of policy-making and formulating guidelines and regulations. Its area of activity is water resources, regardless of how such water is used. It was recently established as the state agency in charge of water resource coordination, planning and supervision.

- 2.7 In view of the deficiencies noted in the water and sanitation services, and to consolidate sector modernization, the State Government, through SEDERE, considers it essential to: (i) review and supplement the existing legal framework for the provision of water and sewerage services (see paragraph 6.3), (ii) create and strengthen the agency that will oversee the provision of such services, and (iii) design a sector development strategy that will foster private-sector participation. The strategy is crucial for the necessary investments to be made in expansion of service coverage to the entire population in the state. The federal and state resources available are insufficient to achieve this goal. Private-sector participation would also help ensure more stable, reliable service delivery, swift decision-making, and better separation between service delivery and regulation. The three activities as a whole will help develop the sector and ensure the financing necessary to implement a priority action plan, so that the scant federal and state funds currently being allocated to the sector can be utilized as effectively as possible.

**B. The Bank's country strategy**

- 2.8 The Bank's strategy for Mexico for the next few years is to strengthen the decentralization process to achieve greater social development, reduce poverty and promote more equitable regional development. Among the objectives of the strategy are to strengthen the capacity to provide and manage basic services and to promote private-sector participation in service delivery. The proposed project is consistent with the strategy in terms of water and sanitation services.

**C. MIF strategy**

- 2.9 In the context of the criteria established in the MIF strategy, the proposed project qualifies as **innovative**, since it will lead to private-sector participation in the water and sanitation sector, based on a comprehensive analysis of the legal, institutional and special conditions of the various localities in the state of Veracruz. The project also qualifies as a **demonstration** model, since it will be disseminated by a seminar/workshop to other states and/or municipalities in the country that are interested in modernizing service delivery and boosting the involvement of private enterprises, as described above. The project will also ensure the **sustainability** of the proposed modernization process by implementing major changes in the regulatory framework of the sector that will lead to greater stability for its future development and greater security for private-sector participation.

**D. Prior experience**

- 2.10 The MIF has financed similar technical-cooperation projects in other countries in the region, especially for strengthening regulatory frameworks. Most of these projects have not been formally evaluated or are still under way. However, experience has clearly shown that a firm commitment on the part of the government

to the project objectives is decisive for successful project completion. The most recent experience in achieving private-sector participation in service delivery is the San Pedro Sula, Honduras project (MIF/AT-243), which was successfully implemented.

### **III. PROJECT OBJECTIVES AND BASIC COMPONENTS**

#### **A. Objectives**

- 3.1 The objective of the proposed technical-cooperation project is to support the Government of the State of Veracruz in the modernization of its water and sanitation sector and promotion of private-sector participation. The support includes formulation of a sector development strategy, modification of the existing regulatory framework, creation and strengthening of an autonomous regulatory agency and the measures necessary to involve the private sector in service management and investment financing in one of the largest cities in the state.

#### **B. Description and components**

- 3.2 The project consists of five components, to be carried out in two stages, and will be coordinated by SEDERE, as described in section V.

##### **1. Component 1. Development of a strategic plan for sector modernization (MIF US\$210,000; local US\$240,000)**

- 3.3 This component calls for an evaluation of various alternatives for restructuring the management of the state water supply and sanitation systems, to make service delivery more efficient and to make private-sector participation more feasible. The evaluation will take into account the decentralization process under way nationwide and the respective measures taken in the state of Veracruz. The role of the Veracruz State Water Commission (CAEV) and the specific conditions (size, location, existing services, environmental conditions, etc.) of the various localities, will also be considered. The principal activities of this component are:
  - a. Assess the current situation and prospects for sector development, including an evaluation of the current organizational framework (the institutions involved in planning, supervision and delivery of the services), the results achieved, investment levels obtained and needs for rehabilitation and expansion.
  - b. Devise possible models for private-sector involvement, considering various organizational plans and locality size.

- c. Determine the capacity of private service operators to handle the needs of medium-sized and small localities, and consider possible mechanisms to promote the development and participation of such enterprises.
- d. Select the most appropriate locality or localities to promote private-sector participation.
- e. Consult the community concerned, particularly about any possible rate adjustments and establish standing communication systems.
- f. Design mechanisms and instruments for selecting and evaluating private enterprises, promoting the activities agreed upon, and awarding of the contracts for service delivery and/or concessioning.

**2. Component 2. Establishment of state regulatory framework for the sector (MIF US\$180,000; local US\$105,000)**

3.4 The purpose of this component is to ensure that the state legal framework: (i) promotes private-sector participation; (ii) includes the necessary elements to ensure adequate service delivery; and (iii) clearly assigns regulatory functions to an independent agency. The principal activities of this component are:

- a. Conduct a critical review of the existing legal framework, including environmental legislation, to identify weaknesses in design and/or possible limitations or obstacles to private-sector involvement.
- b. Identify the legislation and regulations necessary to ensure service quality, environmental protection and successful participation by the private sector.
- c. Design and prepare the necessary regulatory instruments, such as those relating to cost recovery (rates), applicability and type of subsidies, and dispute resolution.
- d. Identify the agency responsible for sector oversight, including its functional framework, financing mechanism and legal instrument necessary for this purpose.

**3. Component 3. Strengthening of the sector regulatory agency (MIF US\$240,000; local US\$210,000)**

3.5 This component is designed to support the establishment and consolidation of the regulatory agency for the water supply and sanitation sector in the state of Veracruz. The SEDERE Executing Unit (see section V) will coordinate the activities under this component with the regulatory agency being established so that the proposed strengthening can be carried out on schedule. The component consists of the following activities:

- a. Develop the agency's organizational structure, taking into account the above-described functions and the agency's field of competence.
- b. Design operating methods and procedures to perform the functions assigned to each unit.
- c. Select and train the staff required to ensure performance of the agency's functions.
- d. Design the information system and procure the necessary equipment.
- e. Design user participation systems.

**4. Component 4. Private-sector promotion and participation in service delivery (MIF US\$210,000; local US\$190,000)**

- 3.6 This component includes the support necessary to promote private-sector participation through the competitive bidding in one locality in the state, in accordance with the recommendations made in the strategic plan described under the first component. The Executing Unit will coordinate the activities under this component with the respective municipal government and service operator. During execution of component 1, both the municipal government and service operator must clearly demonstrate that they wish to participate. The principal activities of this component are:

- a. Identify the investments necessary to meet the goals established for service upgrading and expansion.
- b. Promote the competitive procedures for private-sector participation, including compilation of the information necessary to announce the procedures to potential bidders and disseminate of this information through the media and direct contacts.
- c. Support the municipal and state agencies in charge of the review, assessment, and comparison of proposals by private firms.
- d. Assist the municipal government and service operator in negotiating the respective contract.

**5. Component 5. Seminar/workshop (MIF US\$50,000; local US\$20,000)**

- 3.7 The purpose of this nationwide event is to disseminate the findings of the cooperation studies and results of the project activities. According to preliminary estimates, 250 participants from federal water and sanitation agencies, state and municipal agencies and representatives of service operators and private enterprises are expected to attend. The component will cover preparation of the presentations

and key documents for the event, dissemination activities in the other Mexican states and the respective reports.

#### IV. COST AND FINANCING

- 4.1 The estimated budget to achieve the proposed objectives is US\$2 million. The MIF would contribute US\$1 million in the form of a grant (Technical Cooperation Facility) and the equivalent of US\$1 million would be contributed as local counterpart funding by the State of Veracruz, as shown in the following table.

COMPONENT	MIF	LOCAL	TOTAL	%
1. Sector modernization plan and private-sector participation strategy	210,000	240,000	450,000	22.5
2. Establishment of state regulatory framework	180,000	105,000	285,000	14.3
3. Strengthening of state regulatory agency	240,000	210,000	450,000	22.5
4. Private-sector promotion and participation in service delivery	210,000	190,000	400,000	20.0
5. Seminar/workshop for dissemination of outcomes	50,000	20,000	70,000	3.5
Administration		185,000	185,000	9.2
Evaluation	50,000		50,000	2.5
Financial Audit	10,000		10,000	0.5
Contingencies	50,000	50,000	100,000	5.0
<b>TOTAL</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>2,000,000</b>	<b>100</b>

- 4.2 The counterpart resources will be contributed, in part, from SEDERE budget allocations for 2002-2004. At least 50% of the counterpart funds must be contributed in cash. The remaining portion may include the counterpart staff salaries, once the operation has begun. The local contribution will also include secretarial services, communications, offices and in general, the logistical support necessary for the success of the program.

#### V. PROGRAM EXECUTION

- 5.1 **Executing agency.** All activities to be carried out under the proposed project will be coordinated, supervised and organized by the Veracruz State Regional Development Department (SEDERE) . To that end, an executing unit will be created, which, based on the SEDERE organizational chart, will report directly to the Director. With the creation of this unit, SEDERE will be deemed to be in a

- position to adequately support, direct and coordinate implementation of the proposed components.
- 5.2 **Executing Unit.** For purposes of the project, SEDERE will establish an executing unit (EU) consisting of a general coordinator and two professional staff members in charge of information and management. The EU will be responsible, among its duties, for the following: (i) oversee the fulfillment of the project objectives; (ii) select, hire and supervise the project consultants; (iii) coordinate the activities of the consultants hired, so that the activities are executed on schedule; (iv) coordinate the logistics and allocation of the resources necessary to implement the consultants' work; (v) submit requests for disbursement and supporting documentation as required by the Bank; (vi) submit semiannual reports on the revolving fund within 60 days after the end of each six-month period; (vii) prepare and submit the financial reports on the program and any other financial reports required by the Bank; (viii) maintain separate, project-specific bank accounts for management of the Bank contribution and the local counterpart funding; (ix) ensure proper management of the resources used to defray the cost of the project activities; and (x) carry out other tasks inherent to the project. Once the locality in which private-sector participation will be promoted has been selected and the regulatory agency has been established, the Executing Unit will coordinate the activities to be carried out under components 3 and 4 with the respective municipality and the regulatory agency.
- 5.3 **Hiring of consultants.** The Executing Unit will use the services of four expert consulting firms (national or international) to conduct the proposed studies, and in certain cases will hire individual consultants for specific activities. The procedures established by the Bank's current policies will be followed for the hiring of consulting firms and individual experts. The threshold above which international competitive bidding will be required is US\$200,000.
- 5.4 **Execution.** The program will be executed in two phases, the first commencing with components 1 and 2, which will be completed in a term of approximately 10 months. Components 3, 4 and 5 will comprise the second phase, for an additional period of approximately 12 months. The second phase may not begin until the phase one activities have been satisfactorily completed. The Bank's Country Office in Mexico, with the support of headquarters, will review compliance with this requirement, ascertaining that: (i) the strategic plan includes all the activities necessary to modernize the sector and involve the private sector; and (ii) there is an appropriate legal framework and the regulatory instruments necessary to ensure successful implementation of the program. Component 5 (Seminar/Workshop) will be executed during the last quarter of the project and take approximately three days.
- 5.5 **Execution and disbursement periods.** The proposed project will be executed within a 24-month period and the MIF contribution will be disbursed over a period

of 27 months. A revolving fund equivalent to 10% of the total funds will be established according to the project's estimated needs, so that the necessary funds will be available on a timely basis for the various project activities.

- 5.6 **Accounting and audit.** SEDERE must maintain an appropriate system of internal accounting and administrative oversight of the project funds. The accounting system must be organized so as to provide the necessary documentation to verify transactions and ensure timely preparation of financial statements and reports. The project records must be maintained so that they: (i) identify the sums received from various sources; (ii) indicate, according to the chart of accounts approved by the Bank, the project expenses with respect to the MIF contribution and all other funds to be contributed for the entire project; (iii) be detailed enough to identify the goods procured and services hired and the use of such goods and services, and (iv) indicate the cost of the activities under each component. Throughout the project execution period, the EU must submit annual financial statements and a final financial statement on the expenses covered with the MIF contribution and the local counterpart funding. The financial statements must be audited by a firm of independent auditors acceptable to the Bank and submitted in accordance with the Bank's auditing requirements.
- 5.7 **Program readiness.** During project preparation, meetings were held with SEDERE authorities and advisors, and national and regional CNA representatives, which helped develop the project components and priorities. The program is at an advanced stage of preparation, with the scope and budget of the national and international consulting services called for having been determined, along with the general and specific functions of the Executing Unit. The terms of reference for the consulting services are being prepared.

## VI. RATIONALE AND RISKS

### A. Benefits

- 6.1 The MIF funding is considered essential for this operation and will provide significant *additionality*. It is estimated that the objectives outlined by the state government to expand coverage and improve the water and sanitation services in the State of Veracruz might not be attained on schedule without sector modernization and private-sector participation. The MIF funding will help support a critical review of the current sector structure and legal framework, and will promote private initiative in service delivery and in the necessary investment financing. Private-sector participation will thus help achieve the objectives of self-sustainability, quality, efficiency and coverage in the provision of the services.

**B. Beneficiaries**

- 6.2 The beneficiaries of the project will be: (i) users of state-supplied water and sewerage services, through changes in the legal framework, strengthening of the regulatory agency and implementation of the recommendations made in the strategic development plan for the sector; and (ii) users of services in the city selected for private-sector participation, through the expected improvement in service delivery.

**C. Risks**

- 6.3 The Veracruz State Water Act, passed in 2001, created the Veracruz Water Board (CSVA) “as the top-level authority responsible for the coordination, planning and oversight of the Veracruz water system”, supporting the Veracruz State Water Commission (CAEV), formerly the CEAS, with the duties of planning, technical assistance, construction of works, supervision and provision of water and sanitation services. However, the Water Act did not establish a sector regulatory agency and limits the period of service contracts or concessions to 15 years, too short a period for recovery of investments in infrastructure works, which normally have a longer useful life. Addressing these issues, along with any others that may arise during the legal framework review, may require the enactment of a new law or the issuance of an addendum to the existing law. There is a risk, however, that there may be little willingness to modify a law that has been recently adopted. To minimize this risk and guarantee that all measures will be taken to ensure the project's success the proposed activities will be executed in two phases (see paragraph 5.4), the second phase to commence upon the satisfactory execution of the first phase. This separation will also allow for evaluation of the outcome of the sector strategic plan and its recommendations for private-sector participation before funds are committed for activities directly relating to such participation.

**D. Social and environmental concerns**

- 6.4 The proposed operation is feasible from the environmental viewpoint because: (i) it will not have any direct adverse environmental or social impact; (ii) it includes measures for environmental protection against any indirect potentially adverse impact; and (iii) it will have a positive impact owing to the adoption of environmental measures. It should be noted, for example, that the environmental legislation on the water supply and sanitation sector will be reviewed as part of the proposed activities under component 2 and is expected to be updated and enforced more effectively. Moreover, the regulations and procedures developed under the project and the proposed seminar/workshop will take into account environmental and social concerns. The terms of reference for the various consulting services will stress consideration of these factors. Special attention will be paid to identifying the environmental responsibilities of the regulatory agency and future private operators. Emphasis will also be placed on establishing responsibility for environmental

liabilities, if service management is transferred to private operators, and on the ability to pay of low-income groups should service rate adjustments be necessary.

## **VII. MONITORING AND EVALUATION**

- 7.1 **Monitoring.** SEDERE must submit semiannual progress reports to the Bank's Country Office within 60 days after the end of each six-month period and a final report within 60 days after the last disbursement. The reports will review the results of the various activities, their contribution to attainment of the project objectives and the indicators set forth in the logical framework. They will follow a format previously approved by the Bank and must include the project activities, financial situation and results. The Country Office will use the reports to monitor the progress of the operation<sup>1</sup> and prepare a project completion report (PCR) within three months after the last disbursement.
- 7.2 **Evaluation.** The project calls for two evaluations to be conducted by an expert consultant on water issues, selected and hired directly by the Bank. The mid-term evaluation will be conducted upon fulfillment of the objectives of the first phase or after the first 12 months since the first disbursement. It will review at least the following: (i) the progress made in the execution of components 1 and 2 of the project; (ii) EU performance; (iii) recommendations and adjustments necessary for future activities; and (iv) the revising of the proposed indicators for the second phase. The final evaluation will be conducted three months prior to the last disbursement, and will review the following: (i) the degree to which the specific objectives were attained, in accordance with the indicators established in the logical framework and revised at the end of the first phase; (ii) the progress made in the establishment and institutional strengthening of the regulatory agency; and (iii) the progress made in private-sector participation in the provision of water and sanitation services in the state.

## **VIII. EXCEPTIONS TO POLICIES AND PROCEDURES**

- 8.1 No exceptions to the Bank policies or procedures are proposed.

## **IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1 As conditions precedent to the first disbursement, the following documentation must be submitted to the satisfaction of the Bank: (i) the legal instrument whereby the executing agency creates the Executing Unit, pursuant to terms agreed with the

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<sup>1</sup> See MIF Project Performance Monitoring Report (MPPMR).

Bank; and (ii) evidence that the general coordinator of the executing unit has been selected.

- 9.2 The commitment of funds earmarked for components 3, 4 and 5 will be subject to the satisfactory completion of components 1 and 2.

**IDB PROGRAM TO SUPPORT REFORM OF THE VERACRUZ WATER SUPPLY SECTOR  
LOGICAL FRAMEWORK**

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
Improve service quality in water supply and sewerage, through the application of modern technologies and management systems, as well as the necessary investments	Sector development program that includes private-sector participation under a stable, modern legal and institutional framework	Official documents establishing the sector strategy  Legislative amendments to promote sector development and private-sector participation  Sector investment plans	The federal and state governments, municipalities and communities are involved in the water sector modernization program
<b>PURPOSE</b>			
Foster participation of private enterprises with ample sector experience to contribute their technology, management practices, and the financial resources needed for sector modernization	A private enterprise is participating in water management and financing of the necessary investments in a major locality in the state.  The regulatory framework is conducive to private-sector participation in other localities.	Contract for the provision of services and/or concessioning with a private firm in a locality in the state  Sector legislation and regulations	The state authorities and civil society support the establishment of an adequate legal framework for the provision of services and successful private-sector participation.  Private enterprises are interested in participating and providing resources.
<b>COMPONENTS</b>			
I. Development of strategic plan for the Veracruz water sector	Plan developed that includes all activities to be executed for sector modernization and successful private-sector participation	Modernization strategy and mechanisms for private-sector participation	State and municipal agencies and institutions provide the necessary support.
II. Review and supplementation of the legal framework	Adequate legal framework and the regulatory instruments necessary for successful execution of the modernization program	Legislation and regulations	Adoption and publication of legislation enacted by the respective authorities

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
III. Strengthening of the regulatory body	Efficient regulatory body trained and operating	Charter of the regulatory body Administrative records for the startup of operations	Adoption and publication by the respective authorities of the regulatory body charter
IV. Private-sector promotion and participation in service delivery	Private-sector participation in at least one municipality by project completion	Record of startup of operations Information on the structure of participation by operators, prepared by the EU	National and international operators are interested in participating in the sector.
V. Dissemination of program outcomes	At least 250 persons with knowledge of project outcomes and 1,000 copies of the seminar report	Participant opinion survey EU reports approved by the SEDERE and the IDB	Other regions of the country are interested in hearing about the program outcomes.
<b>ACTIVITIES</b>			
<b>1. Development of Strategic Plan for Sector Modernization</b>			
1.1 Conduct detailed assessment of the current situation and prospects for sector development. 1.2 Design private-sector participation programs for different types of localities. 1.3 Assess private operator interest in participating in mid-sized and small localities and mechanisms for promoting participation. 1.4 Select the locality (or localities) to launch the process of private-sector participation. 1.5 Design mechanisms for monitoring and evaluation of the modernization program.			
<b>3. Establishment of the Regulatory Framework</b>			
2.1 Conduct assessment and critical review of existing legal framework. 2.2 Identify legislation and regulations necessary to ensure service quality and successful private-sector participation. 2.3 Design and prepare legal instruments necessary. 2.4 Legally establish the agency responsible for sector oversight.			
<b>3. Strengthening of Regulatory body</b>			
3.1 Develop the agency's organizational structure. 3.2 Design operating methods and procedures. 3.3 Select and train staff. 3.4 Design information system. 3.5 Design user feedback mechanisms.			
<b>4. Private-sector promotion and participation in service delivery</b>			
4.1 Promote the proposed participation process. 4.2 Support bid evaluation and comparison. 4.3 Assist in contract negotiations.			

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>5. Dissemination of program outcome</b></p> <p>5.1 Prepare documents and presentations.</p> <p>5.2 Prepare dissemination logistics.</p> <p>5.3 Organize seminar/workshop.</p> <p>5.4 Prepare report.</p>			